

Inspector General

United States
Department of Defense



Agreed-Upon Procedures Related to
the 10th Edition of the Army Chief
Financial Officers Strategic Plan

Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE 18 JUL 2008		2. REPORT TYPE		3. DATES COVERED 00-00-2008 to 00-00-2008	
4. TITLE AND SUBTITLE Agreed-Upon Procedures Related to the 10th Edition of the Army Chief Financial Officers Strategic Plan				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Department of Defense Inspector General, ODIG-AUD, 400 Army Navy Drive, Arlington, VA, 22202-4704				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT Same as Report (SAR)	18. NUMBER OF PAGES 34	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

Additional Information and Copies

To obtain additional copies of this report, visit the Web site of the Department of Defense Inspector General at <http://www.dodig.mil/audit/reports> or contact the Secondary Reports Distribution Unit at (703) 604-8937 (DSN 664-8937) or fax (703) 604-8932.

Suggestions for Audits

To suggest ideas for or to request future audits, contact the Office of the Deputy Inspector General for Auditing at (703) 604-9142 (DSN 664-9142) or fax (703) 604-8932. Ideas and requests can also be mailed to:

ODIG-AUD (ATTN: Audit Suggestions)
Department of Defense Inspector General
400 Army Navy Drive (Room 801)
Arlington, VA 22202-4704

DEPARTMENT OF DEFENSE

hotline

To report fraud, waste, mismanagement, and abuse of authority.

Send written complaints to: Defense Hotline, The Pentagon, Washington, DC 20301-1900
Phone: 800.424.9098 e-mail: hotline@dodig.mil www.dodig.mil/hotline

Acronyms

CFO	Chief Financial Officers
DASA (FO)	Deputy Assistant Secretary of the Army (Financial Operations)
DFAS	Defense Finance and Accounting Service
DoD FMR	Department of Defense Financial Management Regulation
DoD OIG	Department of Defense Office of the Inspector General



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

July 18, 2008

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on Agreed-Upon Procedures Related to the 10th Edition of the Army
Chief Financial Officers Strategic Plan (Report No. D-2008-108)

We are providing this report for review and comment. The Secretary of the Army did not respond to the draft report; however, we considered comments from Assistant Secretary of the Army (Financial Management & Comptroller) and Defense Finance and Accounting Service Indianapolis Operations when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Therefore, we request that the Secretary of the Army provide comments on Recommendation 1 by August 28, 2008.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to auidfs@dodig.osd.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Jack Armstrong at (317) 510-4801, ext. 274 (DSN 698-4801). See Appendix D for the report distribution. The team members are listed inside the back cover.

Patricia A. Marsh
Patricia A. Marsh, CPA
Assistant Inspector General
Defense Finance Auditing Service

Department of Defense Office of Inspector General

Report No. D-2008-108

July 18, 2008

(Project No. D2007-D000FL-0123.000)

Agreed-Upon Procedures Related to the 10th Edition of the Army Chief Financial Officers Strategic Plan

Executive Summary

Who Should Read This Report and Why? Army financial and functional managers responsible for implementing the Army Chief Financial Officers Strategic Plan (the Strategic Plan) should read this report. It specifies actions Army managers can take to improve the Strategic Plan.

Background. We performed this assessment of the 10th Edition of the Strategic Plan at the request of the Assistant Secretary of the Army (Financial Management and Comptroller). The Army General Fund and Army Working Capital Fund FY 2007 financial statements reported \$286.9 billion in assets and \$294.3 billion in budgetary resources. Deficiencies in financial management systems and uncorrected material internal control weaknesses have prevented the Army from receiving an unqualified audit opinion. The Army developed the Strategic Plan as a blueprint for achieving an unqualified audit opinion on its financial statements. The Deputy Assistant Secretary of the Army (Financial Operations) has overall responsibility for the Strategic Plan. The staff agencies are responsible for devising and executing detailed plans to implement tasks in the Strategic Plan.

Results. The Strategic Plan did not identify actions needed to correct material internal control deficiencies and to implement financial requirements. In addition, the Strategic Plan task milestones were not feasible. Although the Strategic Plan has improved the Army's ability to identify and track the tasks necessary to comply with financial requirements and correct internal control weakness, the lack of staff agency implementation plans has limited progress towards achieving financial accountability and obtaining an unqualified audit opinion on the Army financial statements. As a result, the 10th Edition of the Army Strategic Plan was not an effective tool for correcting Army's financial accounting and reporting deficiencies. Also, the Army has made limited progress towards achieving financial accountability and obtaining an unqualified audit opinion on the Army financial statements. Until the Army achieves these goals, its financial resources are at risk. If the Army financial statements cannot achieve an unqualified audit opinion, the DoD Agency-Wide and the Federal Government-Wide financial statements will not achieve one.

The Secretary of the Army should issue policy to ensure that Army staff agencies follow Deputy Assistant Secretary of the Army (Financial Operations) guidance concerning the Strategic Plan process. The Director, Defense Finance and Accounting Service should implement the standards and guidance issued by the Deputy Assistant Secretary of the Army (Financial Operations). The Deputy Assistant Secretary of the Army (Financial Operations) should establish guidance that includes instructions on form and content of implementation plans, procedures for developing and updating milestone dates, and instructions on documenting the progress of task completion. The Deputy Assistant Secretary of the Army (Financial Operations) should also identify the roles and

responsibilities for plan management and implementation, and ensure that Strategic Plan task completion dates are aligned with critical system implementation dates. The agreed-upon procedures for this assessment did not include a review of the internal controls over the Strategic Plan.

Management Comments. The Secretary of the Army did not provide comments to the draft report issued on March 27, 2008; therefore, we request that the Secretary of the Army provide comments on Recommendation 1 by August 28, 2008. The Deputy Assistant Secretary of the Army (Financial Operations) concurred with the finding and recommendations 2 and 3; therefore, no additional comments are required. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

Table of Contents

Executive Summary	i
Background	1
Objectives	3
Review of Internal Controls	3
Finding	
Army CFO Strategic Plan	4
Appendixes	
A. Scope and Methodology	13
B. Staff Agencies	15
C. Financial Management Systems	17
D. Report Distribution	18
Management Comments	
Office of the Assistant Secretary of the Army (Financial Management & Comptroller)	21
Defense Finance and Accounting Service Indianapolis Operations	24

Background

The Deputy Assistant Secretary of the Army (Financial Operations) [DASA (FO)] requested that we perform an assessment of the 10th Edition of the Army Chief Financial Officers (CFO) Strategic Plan.

Financial Management and Reporting Standards. Since 1990, the Congress has established extensive financial management and reporting requirements. The Chief Financial Officers Act of 1990, as extended by the Government Management Reform Act of 1994, required all major Executive branch agencies, their components, and the Federal Government to prepare financial statements and submit them to the test of an independent audit. The Government Performance and Results Act of 1993 required agencies to report on plans and performance systematically. Three years later, the Federal Financial Management Improvement Act of 1996 required that agencies install integrated systems capable of following applicable accounting standards. Compliance with these laws requires financial and functional managers to cooperate in integrating their processes and systems.

The CFO Strategic Plan. Deficiencies in financial management systems and uncorrected material internal control weaknesses have prevented the Army from obtaining an unqualified audit opinion on its financial statements. Army managers do not receive sufficient or reliable financial information needed to effectively manage day-to-day operations. The Army developed the CFO Strategic Plan to improve its processes and systems. The CFO Strategic Plan is intended to resolve the systemic problems affecting the accuracy, reliability, and timeliness of financial information, and to facilitate obtaining an unqualified financial statement audit opinion.

Responsibilities. The DASA (FO) maintains the CFO Strategic Plan and chairs quarterly in-process reviews with all responsible staff agencies to ensure that key actions occur as planned. Twenty different DoD and Army staff agencies share in the responsibility of executing the CFO Strategic Plan, developing implementation plans for each task, allocating resources, and providing the milestone dates when actions must be completed. By establishing implementation plans, staff agencies explain details of how they will implement the tasks assigned to them. See Appendix B for a list of the staff agencies responsible for tasks in the CFO Strategic Plan.

Plan Structure. The CFO Strategic Plan is organized in a hierarchical structure of uniquely numbered tasks. Each line consists of one task. Top-level tasks (levels 1 through 3) are generally wide in scope with little detail, but detail-level tasks (levels 4 through 8) are generally narrow in scope with more detail, as shown in Table 1.

Table 1. Example from the CFO Strategic Plan	
Task Number	Task Description
1	Accurately report Balance Sheet
1.1	Accurately report assets
1.1.1	Accurately report Fund Balance with Treasury
1.1.1.1	Discovery and correction
1.1.1.1.1	Identify requirements to accurately report Fund Balance with Treasury
1.1.1.1.1.1	Issue and implement guidance for resolving the unreconcilable amounts on the check issue differences

Each task or line includes:

- a number that identifies the task and its place in the hierarchy (such as 1.1.1),
- the staff agency responsible for the task,
- task start and finish dates, and
- task status.

The January 2007 version of the 10th Edition of the CFO Strategic Plan had a total of 1,782 tasks: 8 first-level, 35 second-level, 244 third-level, 282 fourth-level, 394 fifth-level, 530 sixth-level, 176 seventh-level and 113 eighth-level.

Financial Requirements Definitions. The CFO Strategic Plan addresses requirements related to the list of tasks. The financial requirements addressed by the CFO Strategic Plan cover federal accounting principles and standards, internal control standards, and financial management requirements, such as:

- public laws,
- Office of Management and Budget publications,
- Department of the Treasury manuals,
- Federal Accounting Standards Advisory Board pronouncements,

- DoD Financial Management Regulation 7000.14R (DoD FMR), and
- The “Guide to Federal Requirements for Financial Management Systems” Version 5.0, November 2006, prepared by the Business Requirements and Integration Division, Defense Finance and Accounting Service (DFAS) Indianapolis Operations.

Financial Statements. Table 2 shows the magnitude of DoD Agency-Wide Total Assets, Total Net Cost of Operations, and Total Budgetary Resources accounted for by the Army. The Army accounts for 28 percent, or \$294.3 billion, of the \$1,055.3 billion in DoD Agency-Wide Budgetary Resources for FY2007. The amount of Army Budgetary Resources is material to the DoD Agency-Wide Financial Statements.

Table 2. Totals as of September 30, 2007 (\$ in billions)			
	Army Working Capital Fund	Army General Fund	DoD Agency-Wide Consolidated
Total Assets	\$23.7	\$263.2	\$1,506.3
Total Net Cost of Operations	(\$2.5)	\$168.9	\$622.5
Total Budgetary Resources	\$19.3	\$275.0	\$1,055.3

Objectives

The DoD Office of Inspector General (OIG) assessed the 10th Edition of the Army Chief Financial Officers Strategic Plan to determine whether the plan:

- included the actions needed to implement known financial requirements across functional areas,
- adequately identified corrective actions needed to address known operational and financial material internal control weaknesses, and
- contained feasible milestone dates.

Review of Internal Controls

The agreed-upon procedures for this assessment did not include a review of the internal controls over the CFO Strategic Plan.

Army CFO Strategic Plan

The Chief Financial Officers Strategic Plan has improved the Army's ability to identify and track the broad tasks necessary to comply with financial requirements and correct internal control weaknesses. However, the staff agencies have not developed implementation plans needed to support the CFO Strategic Plan. The lack of detailed staff agency implementation plans prevented the CFO Strategic Plan process from identifying specific actions needed to implement financial requirements and to correct material internal control deficiencies. The lack of staff agency implementation plans also prevented the CFO Strategic Plan from presenting reliable milestones for task completion. Neither DASA (FO) nor the staff agencies had issued guidance addressing policies and procedures for the CFO Strategic Plan process. Also, the DASA (FO) did not have the authority to effectively implement the CFO Strategic Plan. As a result, the lack of staff agency implementation plans has hindered progress towards achieving financial accountability and obtaining an unqualified audit opinion. Also, the Army has made only limited progress towards achieving financial accountability and obtaining an unqualified audit opinion on the Army financial statements. Until the Army achieves these goals, its financial resources are at risk. If the Army cannot achieve an unqualified audit opinion, the DoD Agency-Wide and the Federal Government-Wide financial statements will not achieve one.

Implementation Plans

Staff agency implementation plans serve as the connecting link between the CFO Strategic Plan, the actions completed, and the plans for corrective actions. They should track and document all actions taken by staff agencies to complete their assigned tasks. The CFO Strategic Plan states that:

It is now up to each staff agency to ensure that an implementation plan is in place that will enable them to accomplish each task. Each staff agency's plan must identify the specific activities and resources required to complete each task. This follow-through must occur so that we will collectively accomplish the plan's goals. There are myriad tasks in this Plan, and establishing priorities for the tasks must rest with each responsible functional component.

However, none of the staff agencies had developed an implementation plan that addressed the CFO Strategic Plan tasks. Only one staff agency had an implementation plan, but that plan did not address any of the tasks in the CFO Strategic Plan. As a result, the CFO Strategic Plan was not supported by detailed plans for the staff agencies to meet accounting requirements, effectively address material internal control weaknesses, measure and monitor task progress and accomplishment, or present reliable milestone dates.

During FY 2008, the DASA (FO) assisted several staff agencies in developing implementation plans for CFO Strategic Plan tasks related to Environmental Liabilities and General Property, Plant, and Equipment. The implementation plans will serve as tactical-level, step-by-step process documents that will result

in satisfactory completion of CFO Strategic Plan tasks. The DASA (FO) notified us that the Assistant Chief of Staff for Installation Management has completed a draft implementation plan to address their assigned tasks related to Environmental Liabilities and that the Army Materiel Command, the Army Installation Management Command, and the Army Chief Information Officer have completed draft implementation plans related to General Property, Plant, and Equipment.

Financial Requirements

In order to be an effective tool for achieving an unqualified audit opinion on the Army's financial statements, the CFO Strategic Plan should include detailed actions for addressing all financial requirements.

Financial requirements are the Federal Government's significant laws and regulations related to Federal accounting standards and financial management systems and business operations. They provide policies and processes necessary to develop accurate, reliable, and timely financial information. (See "Financial Requirements Definitions.")

In the CFO Strategic Plan process, the staff agencies are responsible for developing implementation plans that identify the specific actions and resources required to complete their assigned tasks. The staff agencies did not develop implementation plans that linked the actions to their related financial requirements. As a result, the CFO Strategic Plan did not include the specific actions needed to implement known financial requirements related to each task.

In addition, the CFO Strategic Plan did not identify the known financial requirements for many of the other tasks. Appendix B of the CFO Strategic Plan includes columns to identify the financial requirements addressed by each task. However, these columns were blank for 76.2 percent of the non-audit related tasks. In order to determine whether the CFO Strategic Plan addresses all known financial requirements, each task in the CFO Strategic Plan should be aligned with a financial requirement.

The 10th Edition of the CFO Strategic Plan identified 1,782 tasks. Of these, 1,548 were assigned to staff agencies responsible for improving specific aspects of Army financial operations. The remaining 234 tasks were for the DoD OIG and the U.S. Army Audit Agency to confirm that the staff agencies had successfully completed their assigned tasks.

Of the 1,548 non-audit tasks, 240 were top-level tasks that encompass broad accounting objectives, such as "Accurately report Balance Sheet," "Accurately report Assets," and "Accurately report Fund Balance with Treasury." The remaining 1,308 non-audit tasks were detail-level tasks, which were narrower in scope and more detailed. Of these 1,308 detail-level tasks, 959 made no reference to the financial requirements related to the tasks. Of the 349 tasks that identified a financial requirement, 194 referred to both the DoD FMR and another Government requirement, and 56 referred to only the DoD FMR. Table 3 shows the number and type of references for the 1,548 non-audit-related tasks.

Table 3. CFO Strategic Plan References to Financial Requirements										
Task Levels	Tasks With Identified Requirements								Tasks Without Identified Requirements**	
	DoD FMR		Other*		Both		Total			
	Number/ Percent		Number/ Percent		Number/ Percent		Number/ Percent		Number/ Percent	
Levels 1-3 240 tasks	13	5.4%	5	2.1%	1	0.4%	19	7.9%	221	92.1%
Levels 4-8 1,308 tasks	56	4.3%	99	7.6%	194	14.8%	349	26.7%	959	73.3%
All non-audit tasks 1,548 tasks	69	4.5%	104	6.7%	195	12.6%	368	23.8%	1,180	76.2%
*Including Federal Accounting Standards Advisory Board statements, public laws, and guidance from the Department of Treasury, the Office of Management and Budget, and the Government Accountability Office.										
**Includes tasks with “N/A” in the DoD FMR or Gov’t Reference (Other) column in Appendix B of the CFO Strategic Plan.										

Control Weaknesses

Operational and financial material internal control weaknesses are deficiencies that could adversely affect the agency’s ability to meet its objectives. The operational and financial material internal control weaknesses are identified in the Army and DFAS Annual Statements of Assurance, the Army financial statements, and audit reports issued by the DoD OIG. Examples of these material internal control weaknesses are:

- intragovernmental transactions and eliminations,¹
- abnormal account balances,² and
- accounting adjustments.³

Although the CFO Strategic Plan contained broad tasks related to all known operational and financial material internal control weaknesses, it did not identify the specific actions necessary to correct these weaknesses. Each broad task related to a material internal control weakness should contain detailed actions, or be supported by staff agency implementation plans, that identify the corrective actions necessary to correct the weakness. However, the broad tasks did not always contain detailed actions or supporting implementation plans that described the actions necessary to correct or solve the weaknesses or implement the audit recommendations.

¹DFAS makes unsupported adjustments to Army accounts to bring them into agreement with financial data submitted by its trading partners so that intragovernmental eliminations can be made.

²An account has an abnormal balance when a general ledger account should have a positive balance and it actually has a negative balance (or the reverse).

³Unsupported adjustments made to force general ledger accounts to agree with status of appropriations data.

Milestone Dates

The milestone dates for many of the tasks dependent on the implementation of critical systems were not feasible because the task milestone dates did not line up with implementation dates for those systems. Milestone dates are the actual or estimated start and finish dates for the tasks, and these dates are dependent on critical system implementation dates and subtask milestone dates. In addition, many of the milestone dates were unreliable because new subtasks were added to each edition of the plan that caused the milestones for dependent tasks to change.

Critical System Implementation Dates. In many cases, completion of a task in the CFO Strategic Plan depended on the implementation of a system or subsystem that would provide critical support and capabilities for that task. The staff agencies identified 12 systems whose implementation was critical to the completion of 103 tasks. See Appendix C for a list of these critical systems.

We were able to obtain implementation dates for eight critical systems. According to the staff agencies, 77 tasks were dependent on the implementation of these 8 systems. Of these 77 tasks, 18 had projected completion dates prior to the system implementation dates. For example, the task, “Identify and account for Excess, Obsolete and Beyond Repair OM&S,” has a finish date of December 31, 2009.⁴ However, this task is dependent on the implementation of the General Fund Enterprise Business System, which is scheduled for December 31, 2010.

The proponents for the remaining four systems did not provide us with implementation dates. The four systems were:

- Funds Control Module, to be used by the Program Executive Office, Enterprise Information Services;
- Business Enterprise Information Services (Army Working Capital Fund), to be used by DFAS Indianapolis;⁵
- Defense Cash Accountability System, to be used by DFAS Indianapolis; and
- Defense Departmental Reporting System-Budgetary (Army Working Capital Fund), to be used by DFAS Indianapolis.

As a result, we were unable to assess the feasibility of the milestone dates for the 26 tasks the staff agencies had identified as dependent on the implementation of these four systems.

The staff agencies did not identify all tasks dependent on the implementation of these 12 critical systems. For example, the implementation of Business Enterprise Information Services directly affects several tasks critical to both the Army General Fund and the Army Working Capital Fund. However, the staff

⁴ Operating Materials and Supplies

⁵ In this context, Business Enterprise Information Services includes only the Defense Corporate Database and the Defense Corporate Warehouse.

agencies did not identify the dependent relationship of these tasks on the implementation of the Business Information Services. These include correcting two material internal control weaknesses: abnormal account balances and ending balance adjustments. The financial information used by DFAS to prepare the FY 2007 Army financial statements contained \$163.8 billion in abnormal balances, and DFAS made another \$83.7 billion in unsupported ending balance adjustments. Until these deficiencies are corrected, the Army can not achieve an unqualified opinion on its financial statements. Because these tasks were not identified as dependent on the implementation of the Business Enterprise Information Services, we were unable to determine the feasibility of the task milestone dates. The DASA (FO) should ensure that task completion dates are aligned with critical system implementation dates.

Milestone Date Changes. The task milestone dates varied greatly among the different editions of the CFO Strategic Plan, which brings into question the reliability of those dates. We examined the four most recent editions of the CFO Strategic Plan and found that start and finish dates frequently changed after tasks had begun or had been completed. In some instances these changes occurred because the staff agencies added new subtasks in each edition of the CFO Strategic Plan. The milestone dates for these new subtasks resulted in changes to the milestone dates for dependent tasks.

Start Dates. Many task start dates in the 10th Edition of the CFO Strategic Plan were inconsistent with previous editions. For 30 tasks, the start date in the 10th Edition was earlier than in previous editions, even though the task had already started. For example, in the 9th Edition the start date of the task, “Accurately report Working Capital Fund Other Assets,” was October 1, 2001, and the task was 22 percent complete; but in the 10th Edition the start date was October 1, 1998, and the task was 9 percent complete.

For 21 tasks, the start date was later in the 10th Edition than in previous editions, even though the tasks were in progress when the start date was changed. For example, in the 9th Edition of the CFO Strategic Plan, the task, “Improve Internal Controls and Compliance with Laws and Regulations,” had a start date of September 30, 1988, and was 42 percent complete. In the 10th Edition, the start date was changed to September 30, 1996, and the task was 24 percent complete.

Completion Dates. Many task completion dates in the 10th Edition of the CFO Strategic Plan were inconsistent with previous editions. The completion dates for some tasks are dependent on the completion dates for other tasks. When a new task is added, or the completion date for a task changes, the completion date for a task that is dependent on the new or changed task will also change.

For 29 tasks, the completion dates changed in the 10th Edition, although they were shown as completed in the 9th Edition. For example, the 9th Edition indicated that the task entitled “Accurately report Military Retirement Benefits...” was completed on November 5, 2004. However, the 10th Edition indicated that the task would not be completed until December 31, 2010. This task was dependent on the completion of a new task that was added in the 10th Edition. As a result, the completion date changed to match the completion date for the new task.

In some instances, the task completion dates changed for no apparent reason. The 9th Edition, issued in October 2005, indicated that 391 tasks were completed.

The completion date for five of these tasks changed in the 10th Edition to a date prior to October 2005. For example, the task, “Base all records for Inventory on original applicable source documentation...,” had a completion date of December 31, 2008, in the 9th Edition. In the 10th Edition, the completion date was changed to October 2, 1998, which is not only earlier than the completion date in the 9th Edition, but is earlier than the issue date for the 9th Edition.

The staff agencies indicated that detail-level tasks were either added or deleted in the CFO Strategic Plan, which caused higher-level task milestone dates to change. The DASA (FO) should ensure that CFO Strategic Plan task completion dates are aligned with critical system implementation dates. In addition, staff agency implementation plans should develop an effective method to monitor and control the accuracy of the CFO Strategic Plan milestone dates. Due to the high number of changes – 342 start dates and 738 completion dates – the milestone dates in the CFO Strategic Plan are unreliable.

Guidance and Direction

Neither DASA (FO) nor the staff agencies had issued guidance addressing the policies and procedures for the CFO Strategic Plan process. Due to the lack of guidance, there was inconsistency among the staff agencies in the identification and initiation of new tasks, and in updating the CFO Strategic Plan. These inconsistencies among the staff agencies have hindered the CFO Strategic Plan’s effectiveness as a tool for achieving an unqualified audit opinion.

DASA (FO) Policies and Guidance. DASA (FO) did not develop and issue guidance to the responsible staff organizations governing their roles and responsibilities. Although the CFO Strategic Plan assigned the responsibility for developing implementation plans, the DASA (FO) did not provide guidance on the form and content of the plans. In addition, DASA (FO) did not ensure that the staff agencies had developed the necessary implementation plans. As a result, the responsible staff agencies did not develop implementation plans. The DASA (FO) should develop guidance that:

- provides instructions on form and content of implementation plans,
- provides instructions on documenting the progress of task completion,
- includes procedures for developing and updating milestone dates, and
- identifies roles and responsibilities for plan management and implementation for the DASA (FO) and for the staff agencies.

The Secretary of the Army should issue policy to ensure that staff agencies implement the guidance. The Secretary’s support is needed because the Army staff agencies do not report to the DASA (FO). Therefore, the DASA(FO) did not have the authority to effectively implement the CFO Strategic Plan. In addition, The Director, Defense Finance and Accounting Service should implement the standards and guidance issued by the DASA (FO).

Staff Agencies. Staff agencies did not document task identification, requirements, completion, deletions, or staff coordination on tasks. Completion dates for tasks changed with each edition of the CFO Strategic Plan, but the reasons for changes were not recorded.

Each staff agency responsible for completing CFO Strategic Plan tasks should implement standard operating procedures governing how the staff agency will develop and control implementation plans, in accordance with guidance to be issued by the DASA (FO). In addition, staff agencies should develop plans and internal procedures on how to manage current tasks, identify and initiate new tasks, and update the CFO Strategic Plan. Turnover among staff agency personnel also emphasizes the need for operating procedures to help ensure project continuity and success.

Financial Accountability

The Army's CFO Strategic Plan has the potential to be a highly effective tool to achieve an unqualified audit opinion. The U.S. Army Audit Agency first issued a disclaimer on the FY 1993 Army financial statements, and the CFO Strategic Plan has been the Army's approach for achieving compliance with the Chief Financial Officers Act since 1998. However, as Table 4 shows, the percentage of completed tasks has decreased from 32 percent to 28.6 percent over the last four editions of the CFO Strategic Plan. In addition, the average estimated time to complete a task has increased from 2.25 years to over 3.3 years. Although the number of completed tasks has increased from 232 to 510, the number of uncompleted tasks has increased from 494 to 1,272. Since FY 2004, the Army's goal for an unqualified audit opinion on its financial statements has been extended 7 years, from FY 2010 to FY 2017. Although the Army has made progress in completing tasks, it has added more tasks with each CFO Strategic Plan edition. As a result, the percentage of completed tasks has decreased with each CFO Strategic Plan edition, and the Army is proportionally no closer to achieving the goal of an unqualified audit opinion on its financial statements.

Table 4. Changes in CFO Strategic Plan Task Status				
CFO Strategic Plan Edition	7th	8th	9th	10th
Strategic Plan Years	FY 2004-07	FY2005-09	FY2006-11	FY2007-12
Number of Tasks	726	1182	1455	1782
Average Percent Complete	41.5	41.7	39.5	40.2
Completed Tasks (Percent)	232 (32.0)	313 (26.5)	391 (26.9)	510 (28.6)
Tasks not started (Percent)	365 (50.3)	455 (38.5)	640 (44.0)	774 (43.4)
Average Completion Level of Ongoing Tasks*	54	43	43	41
Average Start Date	6/22/2002	1/26/2003	2/14/2004	12/7/2004
Average Finish Date	9/26/2004	11/22/2005	2/18/2007	4/3/2008
Difference	2 Years, 3 Months	2 Years, 8 Months	3 years	3 Years, 4 Months
Last Task Completed	9/30/2007	10/30/2009	11/15/2013	11/19/2013
*Those tasks that had a completion percentage from 1 to 99.				

Although the CFO Strategic Plan has improved the Army's ability to identify and track the tasks necessary to comply with financial requirements and correct internal control weakness, the lack of staff agency implementation plans has hindered progress towards achieving financial accountability and obtaining an unqualified audit opinion on the Army financial statements. As long as the CFO Strategic Plan does not specify the actions needed to implement known financial requirements, identify corrective actions needed to address material internal control weaknesses, and contain feasible milestone dates, the Army will continue to suffer delays in its efforts to improve financial management. Financial management problems exist in almost all of the Army's business operations and systems. Until the Army corrects these problems, its financial accountability and reported financial data will continue to be unreliable, and Army management will not receive the full range of information needed to effectively manage day-to-day operations. In addition, the Army will remain unable to achieve an unqualified audit opinion, and its financial resources will remain at risk.⁶ If the Army cannot achieve an unqualified audit opinion, the DoD Agency-Wide and the Federal Government-Wide financial statements will not achieve one, either.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Secretary of the Army issue policy to ensure that Army staff agencies follow Deputy Assistant Secretary of the Army (Financial Operations) guidance concerning the CFO Strategic Plan process.

Management Comments: The Secretary of the Army did not provide formal written comments.

Audit Response: We request that the Secretary of the Army provide comments to the final report.

2. We recommend that the Deputy Assistant Secretary of the Army (Financial Operations):

a. Develop guidance for staff agencies that includes:

- 1) instructions on form and content of implementation plans,**
- 2) procedures for developing and updating milestone dates, and**
- 3) instructions on documenting the progress of task completion.**

b. Identify the roles and responsibilities for plan management and implementation for the Deputy Assistant Secretary of the Army (Financial Operations) and for the staff agencies.

c. Ensure that CFO Strategic Plan task completion dates are aligned with critical systems implementation dates.

⁶ See Table 2 for magnitude of resources involved.

Management Comments. The Deputy Assistant Secretary of the Army (Financial Operations) concurred and will develop a desk guide for staff agencies, identify the requirements to support updating the Plan and develop and maintain tactical plans to support the Plan. The Deputy Assistant Secretary of the Army (Financial Operations) stated that action has already been taken to align critical system dates with the Plan task dates.

Audit Response. Management's comments are responsive to the recommendations and no further comments are required.

3. We recommend that the Director, Defense Finance and Accounting Service, implement the standards and guidance issued by the Deputy Assistant Secretary of the Army (Financial Operations).

Management Comments. The Director, Defense Finance and Accounting Service Indianapolis Operations concurred and will implement the standards and guidance that the Deputy Assistant Secretary of the Army (Financial Operations) issues.

Audit Response. Management's comments are responsive to the recommendations and no further comments are required.

Appendix A. Scope and Methodology

We performed this assessment of the Chief Financial Officers (CFO) Strategic Plan at the request of the Assistant Secretary of the Army (Financial Management & Comptroller). The assessment included a review of the October 2006 version of the 10th edition of the CFO Strategic Plan. We examined the 7th, 8th, and 9th editions to determine the number of tasks included in each. We also examined the procedures used by the Deputy Assistant Secretary of the Army (Financial Operations) to monitor and manage the CFO Strategic Plan. We reviewed the procedures related to the CFO Strategic Plan used by the Defense Finance and Accounting Service Indianapolis and 16 Army staff agencies responsible for executing tasks specified in the plan. We interviewed personnel at these agencies and obtained answers to two questionnaires related to the CFO Strategic Plan from them. We also contacted the proponents of 10 Army automated accounting systems critical to the execution of the CFO Strategic Plan, but we did not receive responses from 4 system administrators, which created a scope limitation.

We reviewed requirements established by the Federal Accounting Standards Advisory Board, the U.S. Treasury, the Government Accountability Office, the Office of Management and Budget, and the Office of the Under Secretary of Defense (Comptroller and Financial Officer).

We did not review the tasks of the U.S. Army Audit Agency and the DoD OIG because none of the tasks assigned to these agencies had started. We did not review the tasks assigned to the U.S. Army Corps of Engineers because its requirements had already been satisfied.

We conducted this attestation engagement from January 2007 through February 2008 in accordance with generally accepted government auditing standards, which incorporate the financial audit and attestation standards established by the American Institute of Certified Public Accountants. The DoD OIG was not engaged to perform, and did not perform, an examination with an objective to express an opinion. We do not express an opinion on whether the Army has complied with any Federal laws and regulations. The DoD OIG neither assisted in the preparation of the information required to perform the agreed-upon procedures nor provided any internal control functions, which are the responsibility of the Assistant Secretary of the Army (Financial Management & Comptroller).

Use of Computer-Processed Data. We did not use any computer-processed data to perform this attestation engagement.

Government Accountability Office High-Risk Area. The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage on: the Army's overall approach to business transformation, business systems modernization, financial management and information systems, and critical infrastructure.

Prior Coverage.

There has been no coverage of the Army CFO Strategic Plan during the last 5 years.

Appendix B. Staff Agencies

The following staff agencies have responsibilities for tasks in the CFO Strategic Plan.

Department of Defense

- Office of the Under Secretary of Defense (Comptroller)
- Office of the Under Secretary of Defense (Acquisition, Technology and Logistics)
- Defense Finance Accounting Service Indianapolis Operations Center
- Department of Defense Office of Inspector General

Department of the Army

- Assistant Secretary of the Army for Manpower and Reserve Affairs, G-1
- Plans and Operations, Army G-3
- Assistant Secretary of the Army for Acquisition, Logistics and Technology, G-4
- Chief Information Officer, G-6
- Assistant Secretary of the Army for Civil Works
- Army Study Program Management Office, G-8
- Army Materiel Command
- Chief, National Guard Bureau
- Office of the Assistant Chief of Staff for Installation Management
- Installation Management Command
- Army Medical Command
- Office of the Assistant Secretary of the Army (Financial Management and Comptroller)
- Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology)
- Program Executive Officer Enterprise Information System

- The Judge Advocate General
- Auditor General, Department of the Army

Appendix C. Financial Management Systems

We identified 12 critical systems not fully implemented as of September 30, 2006 and 103 tasks dependent on the critical systems.

Proponents provided implementation dates for:

- Business Enterprise Information Services (Army General Fund),
- Capital Asset Management System Military Equipment,
- Defense Departmental Reporting System – Budgetary (Army General Fund),
- General Fund Enterprise Business System,
- Global Combat Support System,
- Item Unique Identification,
- Logistics and Modernization System, and
- Property Book Unit Supply Enhanced System.

Proponents did not provide implementation dates for:

- Business Enterprise Information Services (Army Working Capital Fund),
- Defense Cash Accountability System,
- Defense Departmental Reporting System – Budgetary (Army Working Capital Fund), and
- Funds Control Module.

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)

Department of the Army

Assistant Secretary of the Army (Financial Management & Comptroller)
Deputy Assistant Secretary of the Army (Financial Operations)
Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Finance and Accounting Service

Non-Defense Federal Organizations

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Homeland Security and Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Oversight and Government Reform
House Subcommittee on Government Management, Organization and Procurement,
Committee on Oversight and Government Reform
House Subcommittee on National Security and Foreign Affairs,
Committee on Oversight and Government Reform

Office of the Assistant Secretary of the Army (Financial Management & Comptroller) Comments



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20315-1109
JUN 11 2008

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE, 400 ARMY NAVY DRIVE, ARLINGTON, VIRGINIA,
22202-4704

SUBJECT: Agreed-Upon Procedures Related to the 10th Edition of the Army Chief
Financial Officers Strategic Plan (Project No. D2007-D000FL-0123.000, dated
March 27, 2008)

1. Attached is the Army's reply to the subject draft audit report. We requested this review to gain an independent assessment of our efforts to detail the actions needed to successfully achieve an audit opinion on the Army's financial statements. We recognize that the Plan is a plan and will change as we gain more knowledge of operational areas and as requirements and resources change.
2. We generally agree with the details in the report. Based on your report we have made changes to the Plan to ensure that it is a more comprehensive and supportable document. We are working closely with the audit team to ensure our Plan is a sufficient and useful tool for the Army functional offices responsible for its achievement.
3. My point of contact for the CFO Strategic Plan is Mr. Marlin Erickson. He can be reached by telephone at (703) 693-3384 or by e-mail at marlin.erickson@us.army.mil.


John J. Argocdale
Deputy Assistant Secretary of the Army
(Financial Operations)

Attachment

DoDIG Audit Report
Agreed-Upon Procedure Related to the 10th Edition of the Army Chief Financial
Officers Strategic Plan
Project No. D2007-D000FL-0123.000, dated March 27, 2008

Recommendation 1. We recommend that the Secretary of the Army issue policy to ensure that Army staff agencies follow Deputy Assistant Secretary of the Army (Financial Operations) guidance concerning the CFO Strategic Plan process.

Management Comments. Concur. We recognize that guidance or direction relating to CFO compliance needs to come from a level higher than the Deputy Assistant Secretary of the Army (Financial Operations), because the implementing organizations are not in our chain of authority. However, the Department of Defense should send out guidance or requirements first; then the components can issue guidance to their activities.

Recommendation 2. We recommend that the Deputy Assistant Secretary of the Army (Financial Operations):

a. Develop guidance for staff agencies that includes:

- 1) instructions on form and content of implementation plans,
- 2) procedures for developing and updating milestone dates, and
- 3) instructions on documenting the progress of task completion.

b. Identify the roles and responsibilities for plan management and implementation for the Deputy Assistant Secretary of the Army (Financial Operations) and for the staff agencies.

c. Ensure that Strategic Plan task completion dates are aligned with critical systems implementation dates.

Management Comments. Concur. We will develop a desk guide for staff agencies on the form and content of Plan tasks. We will identify the requirements to support updating the Plan and developing and maintaining tactical plans to support the Plan. We have already taken action to align critical system dates with the Plan task dates, ensuring that the dates we report are in line with those reported to the Business Transformation Agency for the Enterprise Transition Plan.

Recommendation 3. We recommend that the Director, Defense Finance and Accounting Service, implement the standards and guidance issued by the Deputy Assistant Secretary of the Army (Financial Operations).

Management Comments. Concur. DFAS will implement the standards and guidance that the Deputy Assistant Secretary of the Army (Financial Operations) issues.

Defense Finance and Accounting Service Indianapolis Operations Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
8899 EAST 56 TH STREET
INDIANAPOLIS, INDIANA 46249

DFAS-JBI/IN

APR 23 2008

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Report of Agreed-Upon Procedures Related to the 10th Edition of the Army
Chief Financial Officers Strategic Plan, Project No. D2007-D000FL -0123.000

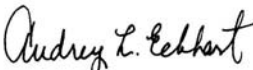
Indianapolis Operations is providing management comments to recommendation number 3 as follows:

Recommendation 3: We recommend that the Director of the Defense Finance and Accounting Service implement the standards and guidance issued by the Deputy Assistant Secretary of the Army (Financial Operations).

Management Comments: Stakeholder: Gene Kincy, 317-510-6491. Concur. We will implement the standards and guidance issued by the Assistant Secretary of the Army (Financial Operations), once developed. The new standards and guidance will be incorporated into the Defense Finance and Accounting, Indianapolis Operations Standard Operating Procedures for managing the Strategic Plan and Financial Improvement and Audit Readiness Plan once the new standards and guidance are issued by the Assistant Secretary of the Army (Financial Operations).

Estimated Completion Date: Contingent upon the Deputy Assistant Secretary of the Army, (Financial Operations) developing and issuing the standards and guidance concerning the Strategic Plan process as recommended in the draft audit report.

My point of contact is Gene Kincy, 317-510-6491.


Steve R. Bonta
Director, Indianapolis Operations

www.dfas.mil
Your Financial Partner @ Work

Team Members

The Department of Defense Office of the Deputy Inspector General for Auditing, Defense Financial Auditing Service prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

Patricia A. Marsh
Jack L. Armstrong
Mark A. Ives
Paul C. Wenzel
Cheri D. Givan
Mary K. Murphy
G. Marc Queck
Joseph A. Baer
Ellen Kleiman-Redden



Inspector General Department of Defense

